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MONTHLY PROJECTIONS
May 1986

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SECOND-HALF SURGE MOSTLY IN PRICES

Changes in desired inventories continue to create unstable price movements in oil products. When oil prices were falling from $28 per barrel to less than $10 on the spot market, desired inventories fell sharply below inventories actually on hand. As a result, inventory liquidations accentuated the downward movement of oil prices. When the beginning of the driving season began in May, unusually low inventory holdings generated price increases. Soon, rising prices led to increases in desired inventories relative to those on hand. Once again, inventory holdings caused prices to overadjust relative to underlying demand and supply conditions. Prices again moved downward soon after inventories grew more rapidly than the quantity demanded. However, it is increasingly evident that oil prices will be stabilizing near $15 per barrel until significant changes occur either in supply conditions or in basic demand. Some price firming probably will develop during the fall, but oil prices now are not anticipated to exceed $17 per barrel for any sustained period of time prior to the fall of 1987.

Although fluctuating oil prices suggest that monthly inflation statistics could be erratic over the next few months, most of the deflationary impact from falling oil prices already are in the price indices. Because of further significant price declines for natural gas, the PPI in May is expected to remain unchanged, but will be rising significantly for the remainder of 1986. Large increases in prices of service components should cause the CPI to increase 0.3% in May, ending a string of three consecutive declines. Already, falling mortgage rates have led to a significant rebound in construction activity and construction costs. The implicit construction deflator in April increased 0.8%. While some of that is expected to be statistical and will be reversed next month, this suggests that inflationary pressures will be building significantly into the third quarter. For example, the GNP deflator, which grew only 2.5% in the first quarter and is projected to increase only 0.4% in the second quarter, will be rising more than 4% in the second half of 1986. Because of this intensifying inflationary pressure, expenditures before adjustment for price changes will be growing nearly twice as rapidly during the second half of this year as in early months.

Although spending is expected to grow more briskly later in 1986, the inflation-adjusted magnitude of spending should not intensify. While everyone was bemoaning the absence of consumer spending during the first four months of 1986, inflation-adjusted consumer spending grew at a surprisingly brisk 6.7% rate. With the aid of incentives, automobile sales once again moved above 11 million units. Furniture and hardware sales moved briskly upward in response to improving housing activity. Although consumer savings also appeared to spurt in April, this increase was the result of government subsidies to farmers. Typically, crop support payments enter almost completely into savings during the month in which they are disbursed, as farmers use these funds to pay off debts. In fact, personal savings has remained near the $125 billion annual rate that has been sustained since the beginning of the year. In short, the consumer already has been spending the benefits from declining gasoline prices. However, most people have been waiting for dollar valued increases in sales and have failed to recognize that inflation-adjusted activity has been growing rapidly.

Indeed, auto sales are not projected to grow from current levels during the remainder of 1986. While furniture and hardware stores will continue to show real growth throughout the year, sales of inflation-adjusted nondurable goods will slow their growth during the second half. Also, some of the rapid growth in services reflects unusually high volume activity in financial markets. As this activity is expected to diminish later in the year, even the service component will grow more slowly in inflation-adjusted terms. Thus, consumption will not support economic growth as much during the second half of 1986 as it did in the first half.

Construction should continue to provide increasing economic growth until the two million housing starts that have prevailed so far this year are completely factored into residential expenditures. This should occur by July. About that time, multi-family units should begin trending downward. By the end of this year, starts should be growing less than 1.8 million units as funds available to support rental units begin evaporating. (Provisions of the tax bill will ensure reduced funding for such construction activity.) Also, nonresidential construction will resume its decline following a summer surge in order to build-out facilities now under construction. Again, proposed tax changes significantly increase the value of completions in 1986 at the expense of subsequent years. Because of these tax considerations, construction spending is now expected to reach its peak early in the third quarter and then decline well into 1987.

Although inventory accumulation should intensify later in 1986 as industrial prices begin firming, the $2.5 billion increase in inventories during March will not be exceeded until the fall. In effect, automobile production was excessive and is now being reduced to provide a better balance with underlying sales conditions. Thus, upward revision in inventory investments during the first quarter leads to reduced projections of economic gain in the summer months.

Of course, not all sectors of the economy will be growing more slowly later in 1986. Following a significant drop during the first few months, capital shipments should grow modestly over the next year. The anticipated repeal of the investment tax credit will modestly reduce orders for capital goods, but the projected impact is expected to be slight. A rebound in defense shipments also should add to economic activity in the remainding quarters of 1986, following a surprising period of weakness during the first quarter.

Also contributing to improving economic conditions in the next few quarters will be a modest downward trend in the trade deficit. The trade deficit fell sharply within the first quarter and between the first and second quarters, but much of this decline reflected reduced dollar values for the volume of petroleum entering the United States. Some reduction in the volume of petroleum products also occurred as inventories were being liquidated, which should have had no effect upon measured GNP because inventories and imports both should decline by similar amounts. However, there is a growing likelihood that the GNP accounts are incorrectly handling the inventorying of imported goods. For example, both in the fourth quarter of 1984 and the fourth quarter of 1985, a surge in imports reduced measured gains in GNP. However, no offsetting production curtailment occurred during those quarters in the United States. Instead, those products were probably inventoried but were not captured in the inventory measures for that quarter. In the subsequent quarter, when the goods were counted either in inventories or final sales, GNP rebounded. Again, no evidence of a rebound in domestic production corresponded to these gains.

Excluding the inventorying problem associated with imported goods, a gradual decrease in the value of merchandise trade deficits along with a significant decline in the volume imbalance should develop. For example, real GNP by 1987 is expected to be $20 billion higher than would have occurred if no change in trade volumes had developed.

The case for greater real growth during the second half of 1986 must rest upon increased growth in capital spending, increased government purchases, improving trade balances, and increased inventory investment. While these sectors are formidable, they must offset apparent slowing in the growth contributions from consumption and construction. On balance, economic growth in the second half of 1986 probably will be slightly less than during the first six months after adjustment for inflation.

Of course, increased inflationary pressures, continued growth in mortgage activity until the fourth quarter, and increasing inventory investment all suggests that interest rate pressures will intensify. Already, the Federal Reserve has been forced to accept accelerated gains in monetary aggregates in order to preserve short-term interest rates slightly below 7%. The Federal Reserve may be willing to pursue such a policy as long as the dollar does not fall significantly in value and as long as inflationary pressures do not significantly intensify. However, inflation is expected to become more significant in the latter half of 1986 while reduced capital gains potential will turn non-Japanese foreign investors away from U. S. investment instruments. Although this withdrawal from the American market by foreign investors will not be sufficient to dramatically alter the course of those markets, it will reassert downward pressures upon the dollar's value. In this economic climate, the Federal Reserve certainly cannot encourage further downward movement in short-term interest rates. Indeed, the Federal Reserve may be forced to restrain reserve growth in an effort to slow inflationary pressures later this year.

Finally, moderate increases in interest rates and the effects of anticipated tax changes probably will stall the upward advance of stock market values late in 1986. Although our valuation formulas suggest that equity values could increase by an additional 10%, proposals to significantly increase the tax rates on capital gains by effectively eliminating the differential between capital income and normal income for individuals will probably lead to significant sales of equity positions near the end of 1986. In short, unless transition rules are

enacted to forestall the liquidation of large positions commanding capital gains, a significant stock market decline should be anticipated prior to the end of 1986. Of course, the market would then be in a position to rally even as economic conditions deteriorate in 1987.

Quarterly Profile of GNP

	1986-1	1986-2	1986-3	1986-4	1987-1	1987-2	1986 Annual
Real:	3.7	3.6	3.0	2.6	2.0	2.0	2.7
Price:	2.5	0.4	4.3	4.6	4.2	3.2	2.7
Nominal:	6.3	4.1	7.5	7.4	6.2	5.4	5.5

Monthly Statistical Highlights for May 1986

Payroll employment +223,000; index of hours worked +0.2%; household employment +274,000; civilian unemployment rate 7.1%; personal income -0.6%; savings rate 4.2%; personal consumption +0.4%; retail sales +0.3%; auto sales 11.2 million; housing starts +0.5%; housing permits -0.7%; construction expenditures +1.4%; business inventories +0.2%; orders for durable goods +0.7%; orders for nondefense capital goods +3.0%; industrial production +0.3%; CPI +0.3%; PPI +0.0%; consumption deflator +0.4%; leading indicators +0.5%; real GNP 3.3%; M1 20.0%; M2 10.0%.

Monthly Statistical Highlights for June 1986

Payroll employment +235,000; index of hours worked +0.3%; household employment +325,000; civilian unemployment rate 6.9%; personal income +0.6%; savings rate 4.5%; personal consumption +0.3%; retail sales -0.1%; auto sales 10.7 million; housing starts -3.9%; housing permits -5.4%; construction expenditures +0.9%; business inventories +0.2%; orders for durable goods +0.6%; orders for nondefense capital goods +3.3%; industrial production +0.4%; CPI +0.3%; PPI +0.4%; consumption deflator +0.3%; leading indicators -0.2%; real GNP 2.0%; M1 +7.0%; M2 +8.2%.

COMMENTARY

Employment - Despite a significant dip in the index of hours worked during February, the index grew almost as rapidly as GNP in the winter quarter. The discrepancy between this measurement of labor inputs and the measurement used to generate productivity gains cannot be explained.

Despite a sharp rebound in agricultural employment following heavy rains earlier in the year, household employment grew more slowly than payroll employment in April. In the past twelve months, household employment has trailed payroll employment by nearly a million jobs. The hourly earnings index declined slightly in April and is only 2.5% above previous year levels. This moderation in wage inflation has been responsible for much slower growth in wage and salary income than originally projected. However, more rapid increases are expected in hourly earnings once consumer prices again rebound following the termination of oil price declines.

Personal Income & Outlays - More than $30 billion of increased subsidies to farmers accounted for a surprising 1.2% increase in personal income during April. These subsidies should vanish in May, causing personal income to dip by $20 billion. Wage and salary income grew more slowly than anticipated in April, partially as a result of declining earnings. A rebound in both earnings and hours worked should lead to more rapid gains in the wage and salary component during May.

A sharp rebound in automobile sales during April led to a significant jump in purchases of durable goods. Although nondurable sales declined, all of the falloff was the result of declining prices. In the services component, however, some of the slowing reflected reduced stock market trade activity. Indeed, service expenditures probably will be growing more slowly in the second quarter to reflect the reduced significance of imputed financial services. Although an imputed deflator is not yet available for April, our analysis suggests that another significant gain occurred in inflation-adjusted consumer spending.

Further gains are expected in durable goods spending in May as auto incentives continue to generate significant sales. In addition, nonauto durables are expected to continue growing rapidly in response to rising housing sales. However, the impact of auto incentives should gradually diminish, leading to reduced unit sales during the summer months.

Clearly, the 0.5% gain in retail sales during April reflects dramatic increases in inflation-adjusted sales when the consumer deflator is falling 0.3%. Although retail sales are expected to grow at comparable dollar values in May, an increase in prices will mean that the gains are modest after adjustment for inflation.

Construction - As expected, multi-family units grew in excess of 750,000 during the first four months of 1986. This corresponds with rapid multi-family growth early in 1985. Because of developing tax legislation that will sharply reduce the attractiveness of such investments, multi-family starts are expected to begin falling sharply in June. By the end of the year, multi-family activity will be growing by less than 600,000 units. This will also be reflected in declining housing permits.

Single-family activity also should slow slightly late in the year as the surge in family sales slowly evaporates during the summer.

Nonresidential construction fell sharply in March and April. At the present time, these declines appear to be too early to reflect the topping out of nonresidential orders. Therefore, a rebound is expected in the next few months. However, economic conditions are deteriorating for nonresidential construction activity. It is, therefore, possible that projections still are being overstated for nonresidential activity. If so, construction activity in the second and third quarter will not be as robust as currently projected.

More significantly, the implicit construction deflator surged by 0.8% in April. We are currently viewing this as a statistical fluke that will partially be rectified in the next month. If this is a true surge in construction costs, real construction expenditures will be growing more slowly than currently projected. In any event, real construction expenditures will not reach the levels projected in the May forecast.

Business Activity - Inventories rebounded more sharply in March than had been anticipated. As a result, first quarter GNP estimates may be revised upward. Much of the increase in inventories in March reflected unwanted auto inventories, as 1.1 percentage points of the 1.2% increase in retail inventories was in automobiles. Automobile production now is below auto sales, suggesting that inventories of automobiles will be liquidated. As a result, much slower rates of gain in business inventories are expected in the next few months.

Partially offsetting the weakness in inventory accumulation will be intensifying activity for defense goods and some modest growth in capital spending. However, shipments of capital goods in April fell slightly below March levels. This probably reflected the absence of any significant orders growth in the past few months. We are anticipating a significant rebound in orders for capital goods in the next few months as a result of more favorable capital costs. However, those orders are not yet in the statistics.

Defense orders have slowed significantly in the past month following an earlier surge of orders. A rebound in defense orders is expected again in the next few months. As a result, orders for durable goods should rebound slightly into the summer.

Industrial production should begin accelerating in the next few months. Weakness has occurred in consumer goods and in business equipment. If business equipment orders pick up, as expected, some rebound in industrial production should materialize in the next few months. This will generate some improvement in capacity utilization, leading to further strengthening in capital goods orders, at least until the end of this year.

Prices - Although oil prices no longer appear to be falling, declining natural gas prices led to another unchanged pattern for finished goods. Service prices are beginning to explode, however, causing the CPI to rise by 0.3% in May. The sharp increase in service prices is related to significant gains in housing costs. These prices are expected to moderate later this year, leading to no significant deviation from current inflationary projections.

However, food prices probably are going to rise slightly more than had been projected a month ago as a result of less concentrated slaughtering of dairy cattle than previously anticipated. Therefore, the nondurable deflator is expected to grow more sharply in the second half of 1986 than projected in our forecast. This causes a slight acceleration of inflationary pressure during the second half of the year.

Miscellaneous - The leading indicators have responded sharply to declining prices and a rising stock market. In addition, consumer credit has also rebounded sharply. When prices begin rising, stock prices are not expected to rebound sharply while real money balances may fall slightly in some months. Also, building permits and orders for both plant and equipment and consumer goods should show little growth in the second half of 1986. As a result, the leading indicators probably will plateau during the summer months and then begin falling early in 1987.

FINANCIAL MARKETS

Following the surge in inventories during March, decreases in inventory investment coincided with continued declines in prices in April. Therefore, rates on commercial paper plunged sharply. Now that inventories are again rebuilding and inflation is beginning to intensify, commercial paper rates have begun firming. The Federal Reserve has discovered that it cannot maintain its targeted 6.75% federal funds rate and also maintain a relatively modest growth in monetary aggregates. Both the monetary base and all the monetary aggregates grew excessively in May. Activity is not expected to be as intense in the next few months as the monetary aggregates once again slow. Nevertheless, the Federal Reserve probably will abandon its interest rate target in order to control money growth in an environment of increasing inflationary pressure before the end of summer. During the latter part of 1986 the federal funds target is expected to be 7.5%. This will necessitate an increase in the prime rate to at least 9%.

Theoretically, long-term interest rates could continue to trend downward on the basis of high real returns, especially after tax changes reduce the marginal tax rate to savers. However, the financing cost of holding bond inventories will soon exceed the yields provided by long-term government bonds. Thus, investors probably would be reluctant to hold bonds at yields that required anticipated capital gains when short-term interest rates were trending upward. While long-term interest rates are not expected to rise dramatically, (for example, the mortgage rate probably will only peak at 10.5% late in 1986) some increase in long-term rates should be anticipated.

Tax changes probably will reduce the attractiveness of municipal bonds relative to taxable bonds. Indeed, the tax reform program appears to favor taxable bonds relative to all other portfolio investments while slightly disfavoring tax exempt issues. Most tax shelters are significantly out of favor. The gap between yields on the bond buyer and the corporate AAA should narrow to where the bond buyer is yielding more than .85 times the corporate AAA. Tax exempt issues then may rally more significantly than taxable bonds early in 1987, especially as some limitations on the issuance of tax exempt bonds may reduce the supply early in 1987.

Equity Markets

The equity markets are struggling with prospects of improving profits offset by diminishing evaluations of profits because of rising interest rates. In the spring and early summer, the increase in interest rates should be sufficiently subdued, especially as measured by corporate AAA yields while the potential for improving operating profits less tax liability should be sufficiently beneficial that equity values could rise above 2000 as measured by the Dow Jones index. Profit prospects late in 1986 should gradually dissipate while interest rates are expected to continue rising, at least into the early months of 1987. Normally, this outlook would necessitate a modest reduction in equity values.

However, if no transitional adjustments are made to the Senate tax proposals, capital gains will effectively be taxed at 27% in 1987 as opposed to a 20% cap in 1986. Many investors with substantial capital gains may choose to take the last opportunity to receive reduced tax treatment by selling their holdings late this year. These tax-induced transactions could lead to a relatively significant decline in equity values. While any estimates would be hazardous, because it is based upon unexercised capital gains, a statistic that is not readily available, a stock market correction of 20-30% late in 1986 cannot be ruled out. Indeed, some investors may anticipate eroding capital values and begin liquidating their long-term holdings soon after the tax reform package is enacted, if no transitional rule for capital gains is initiated. Whether such transitional legislation emerges in the tax conference will not be known until after Labor Day. Therefore, a summer stock market rally can ignore the omnious near-term cloud raised by the transition to a new tax code, but investors should be advised to liquidate positions during the fall.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore	C.E.	Fore	C.E.	Fore.	C.E.
January 1986	99496	99496	119.1	119.1	108955	108955	6.7	6.7	167.4	167.4
February	99649	99656	118.5	118.6	108561	108561	7.2	7.3	168.4	168.5
March	99841	99834	118.9	119.0	108788	108788	7.2	7.2	168.8	168.9
April	100029	100040	119.2	119.1	109024	108892	7.1	7.1	169.2	168.8
May	100296	100263*	119.5	119.3*	109265	109166*	7.0	7.1*	169.3	169.3*
June	100563	100498	119.8	119.6	109512	109491	7.0	6.9	169.5	169.7
July	100778	100729	120.1	119.8	109773	109719	6.9	6.9	170.2	170.1
August	100972	100958	120.5	120.1	109975	109965	6.8	6.9	170.8	170.6
September	101065	101184	121.0	120.4	110178	110228	6.7	6.8	171.4	171.1
October	101397	101367	121.2	120.6	110418	110453	6.7	6.8	171.9	171.6
November	101649	101532	121.4	120.8	110753	110626	6.6	6.7	172.5	172.2
December	102015	101706	121.6	121.0	111130	110848	6.5	6.7	173.1	172.8
January 1987	102098	101935	121.8	121.3	111275	111098	6.5	6.6	173.5	173.4
February	102197	102116	121.9	121.5	111358	111310	6.5	6.6	173.9	173.9
March	102295	102272	122.0	121.7	111439	111489	6.4	6.5	174.4	174.4
April	102468	102443	122.2	121.9	111694	111659	6.4	6.5	174.9	174.9
May	102705	102607	122.5	122.1	111918	111854	6.3	6.5	175.4	175.5
June	102921	102791	122.8	122.2	112142	112079	6.3	6.5	176.0	176.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore	C.E.	Fore.	C.E.	Fore	C.E.
January 1986	3.387	3.386	2.027	2.027	124.7	124.4	2.882	2.882	2.758	2.758
February	3.401	3.402	2.034	2.034	125.7	124.9	2.896	2.897	2.771	2.772
March	3.407	3.408	2.044	2.044	122.9	129.7	2.904	2.904	2.781	2.775
April	3.432	3.447	2.052	2.048	127.8	159.0	2.926	2.942	2.788	2.783
May	3.429	3.427*	2.062	2.059*	127.3	123.5*	2.921	2.919*	2.794	2.796*
June	3.435	3.446	2.073	2.071	124.0	131.0	2.928	2.935	2.805	2.804
July	3.459	3.462	2.081	2.080	121.9	125.6	2.944	2.948	2.822	2.822
August	3.482	3.482	2.092	2.093	121.7	125.6	2.962	2.964	2.841	2.838
September	3.506	3.504	2.103	2.105	121.7	126.5	2.981	2.982	2.860	2.855
October	3.526	3.525	2.113	2.117	118.7	130.3	2.996	2.999	2.878	2.869
November	3.547	3.543	2.125	2.129	120.7	126.9	3.012	3.013	2.892	2.886
December	3.569	3.562	2.137	2.142	123.0	128.6	3.029	3.028	2.906	2.899
January 1987	3.575	3.577	2.148	2.152	120.7	139.4	3.042	3.053	2.922	2.914
February	3.598	3.600	2.158	2.168	120.6	147.2	3.061	3.074	2.940	2.927
March	3.633	3.618	2.168	2.179	132.4	144.9	3.090	3.089	2.958	2.944
April	3.640	3.637	2.179	2.191	116.6	145.9	3.094	3.105	2.977	2.959
May	3.649	3.656	2.187	2.203	104.8	142.2	3.098	3.120	2.993	2.978
June	3.659	3.672	2.196	2.213	96.7	138.7	3.104	3.132	3.009	2.993

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	2659.6	2659.4	368.8	368.8	933.9	933.9	1356.9	1356.6	2337.3	2336.9
February	2671.5	2673.0	364.0	367.6	935.0	933.8	1372.5	1371.6	2357.5	2357.6
March	2680.8	2674.8	354.4	355.9	948.6	940.3	1377.8	1378.7	2374.4	2368.3
April	2687.0	2682.5	365.0	369.5	936.4	930.9	1385.6	1382.0	2382.1	2375.1*
May	2692.3	2694.5*	366.2	372.1*	930.2	932.1*	1395.9	1390.3*	2378.4	2378.6
June	2706.1	2702.4	364.7	365.7	935.1	938.3	1406.3	1398.4	2380.0	2378.1
July	2723.5	2720.1	369.8	368.2	939.2	944.1	1414.5	1407.8	2389.0	2384.9
August	2736.4	2735.4	371.6	368.2	943.8	950.9	1421.0	1416.3	2396.1	2387.1
September	2750.0	2751.8	374.1	368.3	948.3	958.7	1427.6	1424.8	2403.8	2393.3
October	2769.3	2764.3	376.8	367.7	955.7	963.5	1436.8	1443.1	2412.3	2394.5
November	2786.4	2781.0	379.2	370.8	960.3	968.0	1446.9	1442.2	2414.6	2398.9
December	2798.5	2793.6	380.6	372.1	960.7	971.2	1457.2	1450.3	2412.5	2400.0
January 1987	2813.7	2807.1	381.9	372.6	966.5	975.7	1465.3	1458.9	2419.3	2403.7
February	2830.0	2819.5	381.6	371.9	973.8	980.9	1474.6	1466.7	2425.0	2406.4
March	2846.9	2836.0	381.0	374.3	981.4	986.4	1484.5	1475.2	2431.2	2412.3
April	2867.7	2850.1	387.4	376.7	986.5	989.1	1493.8	1484.3	2440.6	2417.9
May	2880.4	2867.9	386.7	378.5	990.7	994.9	1503.0	1494.5	2441.0	2425.6
June	2890.7	2882.5	386.8	379.6	991.6	999.6	1512.3	1503.2	2439.4	2428.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	117.35	117.35	17.86	17.86	11.5	11.5	73.16	73.16	26.33	26.33
February	117.45	117.20	17.97	17.91	10.6	10.6	73.25	73.25	26.04	26.04
March	116.17	116.17	18.07	18.15	9.7	9.7	73.19	73.19	24.83	24.83
April	116.43	116.79	18.05	18.35	10.6	11.1	72.25	72.59	26.13	25.85
May	116.10	117.19*	18.12	18.43*	10.5	11.2*	71.77	72.68*	26.21	26.08*
June	116.40	117.12	18.20	18.52	10.4	10.7	72.15	73.17	26.05	25.43
July	116.94	117.87	18.36	18.60	10.4	10.8	72.47	73.62	26.11	25.65
August	116.97	118.20	18.53	18.68	10.2	10.6	72.82	74.15	25.62	25.37
September	117.62	118.81	18.62	18.79	10.3	10.5	73.17	74.76	25.83	25.26
October	118.51	119.12	18.60	18.92	10.5	10.3	73.74	75.13	26.17	25.07
November	119.34	119.84	18.72	19.03	10.8	10.4	74.09	75.48	26.53	25.33
December	119.54	120.24	18.79	19.01	10.8	10.4	74.12	75.73	26.63	25.50
January 1987	120.14	120.65	19.02	19.11	10.7	10.3	74.57	76.08	26.55	25.46
February	120.67	120.98	19.07	19.20	10.6	10.2	75.13	76.49	26.47	25.29
March	121.19	121.70	19.15	19.31	10.5	10.3	75.72	76.92	26.32	25.47
April	122.34	122.19	19.31	19.38	10.9	10.4	76.11	77.13	26.92	25.68
May	122.59	122.76	19.42	19.45	10.7	10.5	76.44	77.58	26.73	25.83
June	122.67	123.06	19.58	19.52	10.5	10.5	76.51	77.95	26.58	25.89

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
January 1986	-14.93	-16.46	174.1	174.1	4116	4118	3614	3615	0.8	1.6
February	-14.21	-12.49	175.4	175.4	4115	4121	3616	3621	13.3	14.8
March	-14.03	-14.52	176.4	176.6	4118	4124	3631	3637	27.9	34.3
April	-12.73	-12.07p	177.3	179.2	4127	4139	3633	3647	30.3	34.8
May	-12.52	-11.38*	178.2	180.1	4156	4162	3649	3657	14.2	30.6
June	-12.32	-12.46	178.4	179.7	4203	4183	3680	3663	6.2	17.4
July	-11.96	-11.98	178.2	179.4	4221	4216	3690	3679	1.6	8.6
August	-12.06	-12.16	177.5	179.8	4241	4233	3697	3678	-3.5	3.5
September	-12.20	-12.35	178.0	179.2	4262	4260	3706	3691	-8.3	-1.7
October	-12.15	-12.06	178.3	179.6	4288	4291	3716	3703	-8.0	-3.2
November	-12.03	-11.72	178.7	180.4	4315	4308	3726	3704	-7.2	-3.8
December	-11.90	-11.84	178.3	180.1	4342	4330	3737	3711	-6.5	-5.7
January 1987	-11.95	-11.61	177.2	179.5	4363	4359	3739	3722	-8.6	-7.2
February	-11.91	-11.24	177.3	179.0	4385	4370	3745	3719	-10.9	-9.1
March	-11.86	-11.52	176.8	179.6	4406	4400	3750	3732	-12.5	-11.6
April	-11.80	-11.60	176.1	179.0	4424	4420	3752	3743	-12.1	-10.4
May	-11.72	-11.42	175.5	178.3	4440	4430	3753	3741	-11.6	-9.1
June	-11.64	-11.16	175.3	178.0	4455	4449	3753	3745	-11.4	-10.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	329.0	329.0	296.3	296.3	324.0	324.0	113.9	113.9
February	327.7	327.7	291.7	291.7	319.4	319.4	113.8	113.8
March	326.4	326.4	288.6	288.6	314.0	314.0	113.4	113.4
April	325.5	325.2	287.1	286.6	209.6	311.2	113.6	113.5
May	325.9	326.2*	287.8	286.6*	310.9	311.0	113.9	113.8
June	326.6	327.1	298.5	287.7	312.3	312.6	114.2	114.2
July	327.7	328.5	290.3	288.5	313.4	313.9	114.4	114.6
August	328.8	329.8	291.0	289.3	314.7	315.0	114.7	115.1
September	330.0	330.9	291.7	290.2	311.6	312.9	115.0	115.4
October	331.0	332.0	292.3	291.3	315.8	315.6	115.4	115.9
November	331.9	333.1	293.5	292.3	316.1	316.2	115.8	116.3
December	332.8	334.2	294.5	293.6	316.5	316.8	116.2	116.7
January 1987	334.3	335.1	295.2	294.2	317.0	317.3	116.7	117.1
February	335.9	336.1	295.9	294.9	317.8	317.9	117.1	117.5
March	337.5	337.3	296.6	295.5	318.5	318.6	117.5	117.9
April	338.6	338.0	297.3	296.3	319.4	319.3	117.9	118.1
May	339.7	339.1	298.1	297.1	320.3	320.0	118.3	118.4
June	340.6	340.2	298.9	298.0	321.2	320.8	118.7	118.8

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	113.8	113.8	104.9	104.9	109.8	109.8	119.5	119.6	172.1	172.1
February	113.3	113.4	105.0	105.2	108.1	108.0	119.8	119.9	172.3	172.3
March	112.9	112.9	105.0	104.7	106.8	106.7	120.3	120.2	172.8	172.9
April	112.8	112.9*	105.2	105.0*	106.1	106.0*	120.6	120.7*	173.3	174.3
May	113.2	113.3	105.3	105.2	106.0	106.3	121.0	121.1	173.9	174.1*
June	113.7	113.6	105.5	105.4	106.2	106.6	121.4	121.5	174.4	174.5
July	114.0	114.1	105.6	105.6	106.4	107.0	122.0	122.0	175.0	175.0
August	114.2	114.6	105.7	105.8	106.5	107.7	122.7	122.5	175.6	175.5
September	114.4	115.0	105.8	105.8	106.7	108.1	123.4	123.0	176.1	176.1
October	114.8	115.4	106.1	106.2	107.1	108.4	123.8	123.6	176.6	176.6
November	115.4	115.9	106.4	106.5	107.6	108.7	124.1	124.3	177.2	177.0
December	116.0	116.4	106.7	106.7	108.1	109.0	124.5	125.0	177.8	177.5
January 1987	116.3	116.8	107.0	106.9	108.4	109.3	125.0	125.5	178.3	178.0
February	116.7	117.2	107.3	107.1	108.7	109.7	125.6	125.9	178.8	178.4
March	117.1	117.6	107.6	107.4	109.0	110.0	126.1	126.4	179.4	179.0
April	117.5	117.9	107.9	107.7	108.9	110.2	126.7	126.8	179.9	179.5
May	118.0	118.2	108.2	108.0	109.0	110.4	127.3	127.3	180.5	179.9
June	118.5	118.7	108.5	108.3	109.2	110.7	128.0	127.9	181.0	180.4

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	280.4	280.4	108.46	108.19	24.55	24.29	25.60	25.35
February	279.5	279.5	107.82	107.55	28.91	28.64	26.86	26.56
March	278.7	279.6	105.07	104.68	27.02	26.54	27.82	27.30
April	278.2	279.2	105.09	104.51	27.20	26.08	27.40	27.20
May	279.0	279.1*	106.01	105.24*	27.63	26.87*	27.58	27.32*
June	280.3	279.6	105.84	105.83	27.85	27.76	27.76	27.51
July	281.1	280.3	107.13	105.02	28.46	27.05	27.85	27.70
August	282.2	281.1	106.67	107.26	28.40	28.42	27.97	27.83
September	283.2	282.2	108.23	106.84	28.86	28.29	28.09	27.92
October	284.4	283.5	108.84	106.99	29.16	28.53	28.35	28.13
November	286.3	284.8	109.28	108.13	29.33	28.82	28.63	28.41
December	287.4	286.2	108.89	108.56	29.30	29.04	28.91	28.60
January 1987	288.8	287.9	108.37	108.21	29.21	29.07	29.05	28.74
February	290.3	289.5	109.52	108.13	29.34	28.86	29.11	28.87
March	292.5	291.5	109.76	108.82	29.22	29.13	29.17	29.12
April	294.9	293.9	108.83	107.65	29.12	28.72	29.35	29.25
May	296.2	295.7	108.72	107.23	29.18	28.55	29.48	29.20
June	298.0	297.3	108.85	106.94	29.30	28.13	29.61	29.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	585.0	585.0	7.03	7.03	126.6	126.7	80.7	80.8
February	585.1	585.2	7.58	7.58	125.7	125.7	80.0	80.0
March	585.8	587.7	7.27	7.08	125.1	124.9	79.4	79.3
April	587.0	588.3*	7.40	7.38	125.5	125.1	79.5	79.3
May	588.1	589.4	7.49	7.43*	125.8	125.5*	79.5	79.4*
June	589.9	590.5	7.59	7.50	126.4	126.0	79.7	79.6
July	591.2	592.1	7.68	7.57	127.2	126.3	80.0	79.6
August	593.5	593.8	7.85	7.80	127.8	126.8	80.2	79.8
September	595.7	596.3	8.05	7.94	128.4	127.2	80.4	79.9
October	598.2	599.7	8.01	8.06	128.6	127.6	80.4	80.0
November	600.3	602.5	8.07	8.15	128.8	127.9	80.4	80.0
December	602.4	605.5	8.18	8.22	129.0	128.1	80.3	80.0
January 1987	605.8	609.3	8.25	8.29	128.9	128.1	80.1	79.8
February	609.9	612.5	8.33	8.34	129.1	128.1	80.1	79.8
March	613.9	616.7	8.40	8.43	129.2	128.4	80.0	79.6
April	617.1	621.3	8.38	8.40	128.8	128.8	79.7	79.6
May	620.8	625.1	8.45	8.46	128.5	129.1	79.4	79.6
June	623.3	628.0	8.52	8.53	128.2	129.3	79.1	79.5

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	2.034	2.034	1.335	1.335	1.899	1.861	356.1	355.1	206.9	206.3
February	1.997	2.001	1.204	1.202	1.803	1.808	360.5	358.8	209.2	208.3
March	1.949	1.930	1.212	1.207	1.846	1.834	367.2	353.9	212.5	204.7
April	1.966	2.009	1.256	1.256	1.833	1.883	368.4	356.7	212.6	204.6
May	1.940	2.019*	1.237	1.283*	1.792	1.869*	370.6	361.6*	213.1	207.7*
June	1.950	1.940	1.254	1.256	1.796	1.768	372.8	364.8	213.8	209.1
July	1.948	1.936	1.270	1.275	1.813	1.793	374.0	365.5	213.7	208.9
August	1.923	1.930	1.281	1.284	1.756	1.784	376.0	364.3	214.1	207.6
September	1.874	1.878	1.268	1.260	1.721	1.692	376.9	364.7	214.0	207.1
October	1.882	1.864	1.260	1.253	1.695	1.713	378.5	365.3	214.3	206.9
November	1.875	1.832	1.258	1.226	1.704	1.686	379.0	365.2	213.9	206.3
December	1.847	1.794	1.235	1.205	1.688	1.682	379.2	363.9	213.3	205.0
January 1987	1.761	1.761	1.172	1.193	1.615	1.653	378.9	364.5	212.5	204.8
February	1.719	1.763	1.146	1.205	1.567	1.622	378.5	363.9	211.7	204.0
March	1.698	1.737	1.141	1.195	1.528	1.587	377.6	364.9	210.5	203.9
April	1.694	1.707	1.129	1.167	1.533	1.565	375.6	364.7	208.8	203.2
May	1.698	1.664	1.122	1.136	1.539	1.516	374.0	364.1	207.2	202.4
June	1.691	1.665	1.127	1.143	1.552	1.493	371.8	362.6	205.4	201.0

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	135.4	135.0	68.1	68.4	152.6	151.7
February	137.8	135.0	66.9	68.6	155.8	155.1
March	138.6	129.3	67.3	69.0	161.3	155.2
April	139.1	127.7	67.6	69.4	161.7	155.5
May	139.6	133.7*	68.0	69.2*	136.0	159.6*
June	140.2	135.2	68.2	69.5	164.4	160.1
July	140.0	136.0	68.5	69.2	165.5	160.3
August	140.3	136.3	68.9	69.7	166.8	158.3
September	139.7	137.1	69.3	70.1	167.9	157.5
October	140.5	137.6	69.8	70.5	168.2	157.2
November	140.9	138.2	70.1	70.9	168.0	156.1
December	141.0	138.5	70.5	70.6	167.7	154.8
January 1987	141.2	138.9	70.7	71.2	167.0	154.4
February	141.3	138.5	70.9	71.6	166.3	153.8
March	141.1	138.6	70.9	72.1	165.6	154.2
April	141.2	138.0	71.2	72.3	163.2	154.4
May	141.4	137.5	71.4	72.5	161.2	154.1
June	141.1	137.7	71.4	72.9	159.3	152.0

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	235.8	235.8	627.2	627.2	2568.5	2569.1	8.14	8.14	7.16	7.16
February	237.8	237.8	631.0	631.1	2576.3	2576.8	7.86	7.86	7.11	7.11
March	239.0	239.0	638.4	638.4	2590.4	2591.3	7.48	7.48	6.57	6.57
April	240.2	239.8	642.3	646.1	2607.4	2621.6	7.07	6.99	6.33	6.08
May	241.2	241.9	645.3	656.0*	2622.3	2642.5*	7.04	6.83*	6.22	6.25*
June	242.3	242.7*	648.4	659.7	2637.1	2660.0	6.99	6.85	6.12	6.27
July	244.2	244.0	653.3	662.5	2653.2	2674.0	6.89	6.96	6.23	6.41
August	245.7	245.3	658.0	664.8	2675.1	2687.4	6.78	7.13	6.35	6.57
September	247.2	246.7	662.7	668.6	2697.0	2706.2	6.95	7.25	6.46	6.65
October	248.8	248.3	664.5	671.7	2710.2	2722.4	7.26	7.38	6.59	6.69
November	250.1	249.8	666.0	675.0	2720.1	2738.7	7.32	7.50	6.68	6.73
December	251.4	251.2	667.6	678.2	2730.0	2755.1	7.38	7.52	6.77	6.78
January 1987	252.6	252.5	672.0	681.2	2749.8	2771.6	7.42	7.53	6.85	6.79
February	253.7	253.8	676.9	684.5	2769.2	2788.2	7.46	7.48	6.83	6.71
March	254.9	255.0	681.8	687.2	2782.6	2804.9	7.50	7.45	6.78	6.68
April	256.3	256.2	682.5	689.2	2796.6	2818.9	7.32	7.32	6.65	6.63
May	257.4	257.3	683.4	692.1	2809.2	2835.8	7.20	7.36	6.59	6.65
June	258.5	258.5	684.2	695.1	2822.1	2852.8	7.11	7.28	6.53	6.57

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1986	10.05	10.05	8.08	8.08	7.71	7.71	7.82	7.82	9.50	9.50
February	9.67	9.67	7.44	7.44	7.63	7.63	7.69	7.69	9.50	9.50
March	9.00	9.00	7.08	7.08	7.20	7.20	7.24	7.24	9.10	9.10
April	8.74	8.79	7.28	7.20	6.98	6.60	7.06	6.60	8.69	8.83
May	8.89	9.06*	7.47	7.56*	6.95	6.80*	7.02	6.83*	8.50	8.50
June	8.75	9.13	7.31	7.72	6.98	6.85	7.05	6.91	8.50	8.50
July	8.98	9.27	7.59	7.86	6.85	7.03	6.93	7.15	8.50	8.50
August	9.07	9.35	7.66	7.93	6.80	7.17	6.89	7.22	8.50	8.50
September	9.05	9.42	7.63	8.03	6.96	7.31	7.11	7.39	8.50	8.50
October	9.26	9.61	7.82	8.19	7.33	7.40	7.42	7.53	8.67	8.89
November	9.35	9.65	7.89	8.20	7.38	7.53	7.50	7.65	9.00	9.00
December	9.41	9.60	7.92	8.16	7.45	7.55	7.58	7.69	9.00	9.00
January 1987	9.43	9.57	7.95	8.14	7.48	7.50	7.56	7.58	9.00	9.00
February	9.39	9.53	7.83	8.06	7.52	7.42	7.63	7.53	9.00	9.00
March	9.35	9.52	7.78	8.04	7.46	7.40	7.60	7.49	9.00	9.00
April	9.29	9.46	7.66	7.95	7.25	7.25	7.41	7.39	9.00	9.00
May	9.26	9.37	7.62	7.87	7.16	7.26	7.36	7.38	9.00	9.00
June	9.28	9.36	7.65	7.85	7.07	7.22	7.21	7.35	9.00	9.00

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